

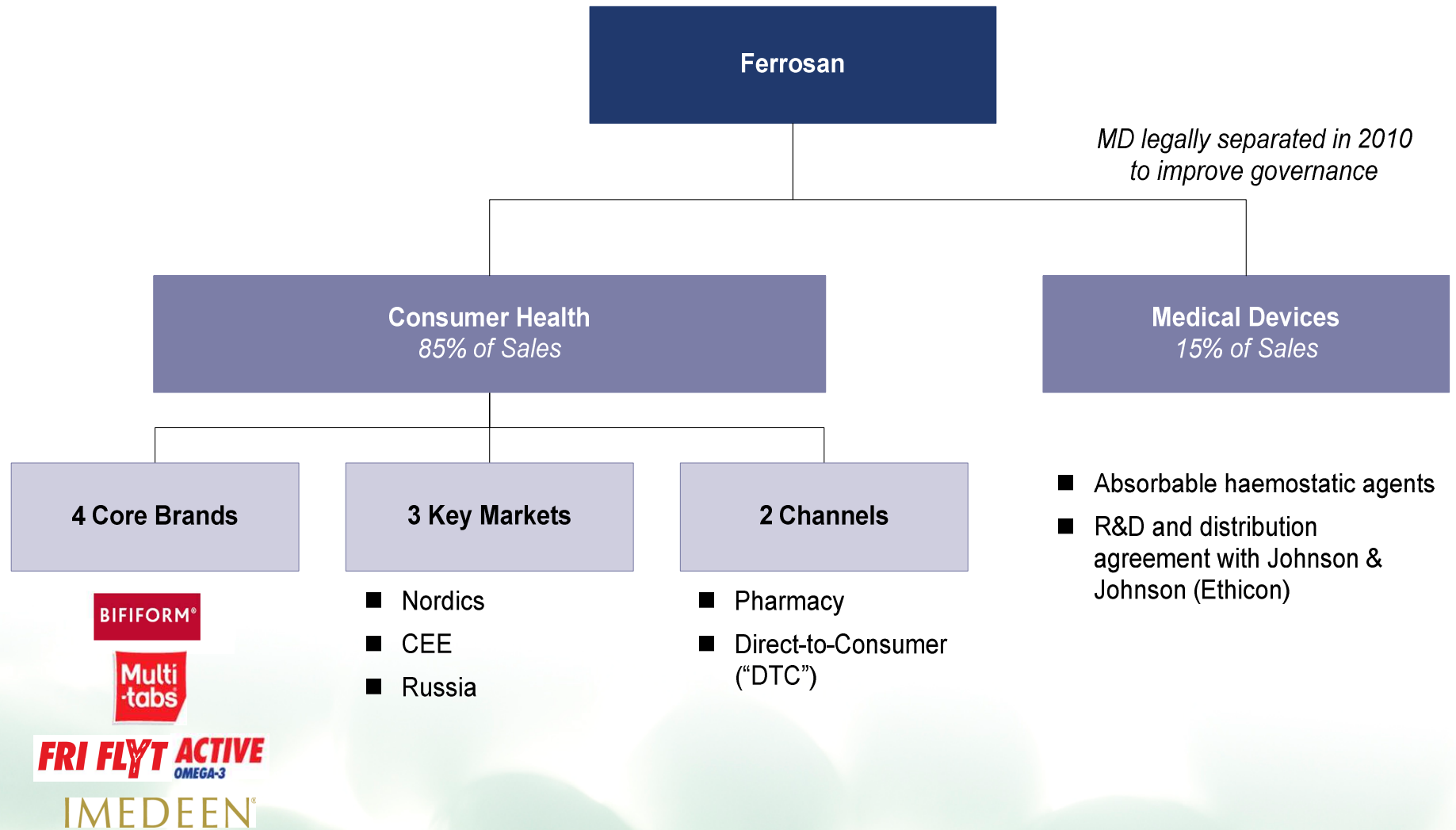


# **Complexity Management**

**3rd Copenhagen SCM Summit 2011**

**Mitra Sigurdsson Hummer**  
**Senior Director, Global Supply Chain**

# Ferrosan at a Glance: Consumer Health 4-3-2 Profile and Medical Devices Business



# Consumer health

Strong trustworthy brands with unique positions and features

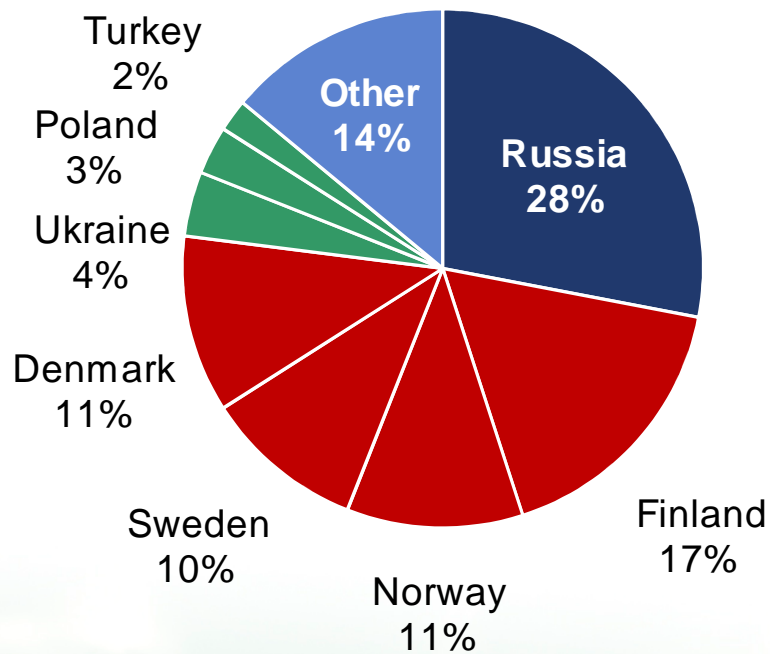


CONSUMER HEALTH

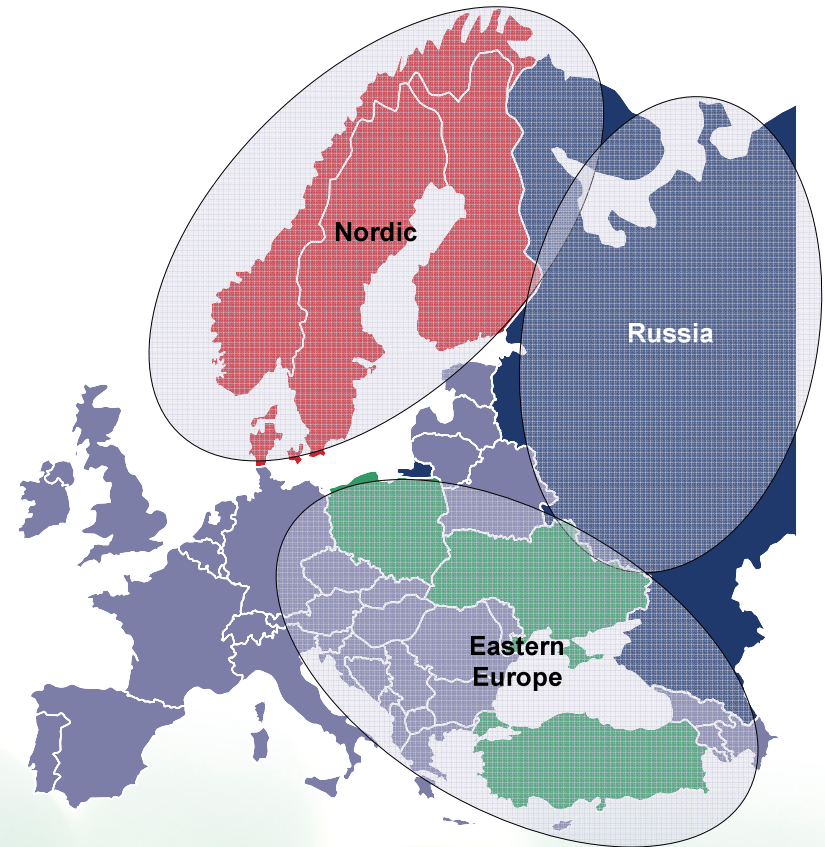
Ferrösan

# Attractive Nordic Business with Strong Russian and Eastern European Presence

## Geographic Sales Breakdown (CH)

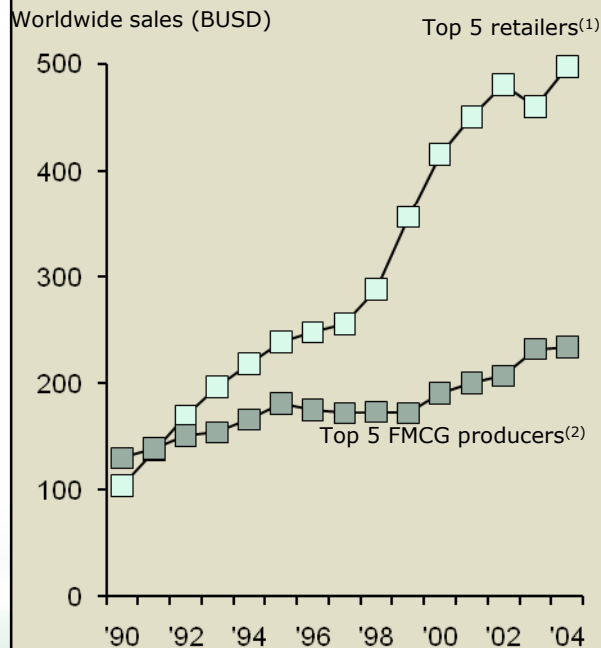


## Key Geographic Markets (CH)



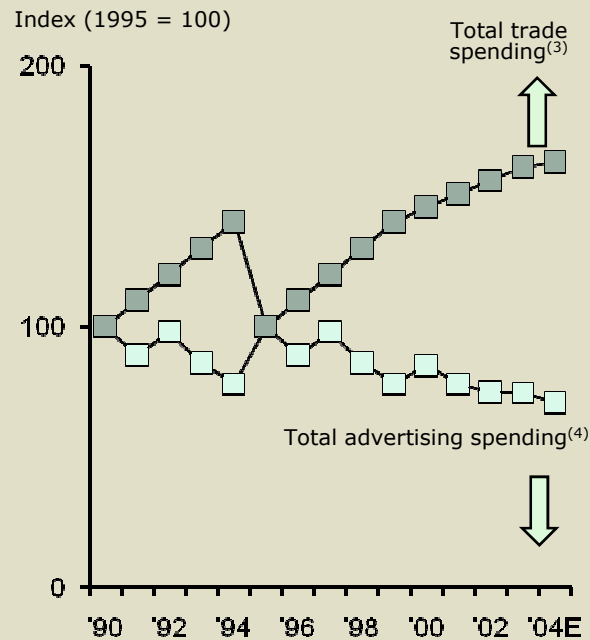
# Leading FMCG companies have responded to market pressure through complexity management initiatives

## Balance of power is shifting...



## ...Brand building suffers...

### Total brand spending by type in Western Europe



## ...Complexity management part of the answer

### Complexity management and focus

- Eliminating weak positions
- Exploiting common platforms
- Embracing complexity

### General cost reduction

- Operational excellence
- Realizing group synergy (SG&A)

### Evolving the business model

- Direct vs. indirect distribution
- Customer segmentation

### Return on innovation and marketing investment

- Business systems to exploit value-added opportunities
- Speed and agility as competitive differentiation

## Why is it crucial for Ferrosan to manage complexity

- ❏ To ensure that complexity is integrated when necessary and in an intelligent manner
- ❏ To ensure that the portfolio is evaluated in a structured process
- ❏ To ensure that launches of products are properly evaluated before central resources are activated
- ❏ To ensure that launches are regularly evaluated and corrective actions are implemented in case it's needed
- ❏ To ensure that all energy and focus are on the right products
- ❏ To minimize scrap
- ❏ To secure a proper planning and prioritization
- ❏ To secure an efficient organisation working with product launches, maintenance and changes

Finding the sweet-spot between simplification and proliferation will become more and more important with increasing pressure on costs, sales price and volume

## Means to find sweet-spot

### Simplification

- Reduce change-over time through less differentiation and more subassemblies
- Outsource complex SKU's
- Reduce number of SKU's
- Simplify packaging
- Reduce time-to-market

- ✎ Cross functional packaging teams to ensure overview of full product and value flow
- ✎ Evaluate all SKU's on commercial aspects, total cost, as well as complexity
- ✎ Remove features which are not adding value to customer/consumer
- ✎ Standardise and harmonise on features which are less obvious to consumers/customers
- ✎ Increase standardisation and aim for late proliferation

### Proliferation

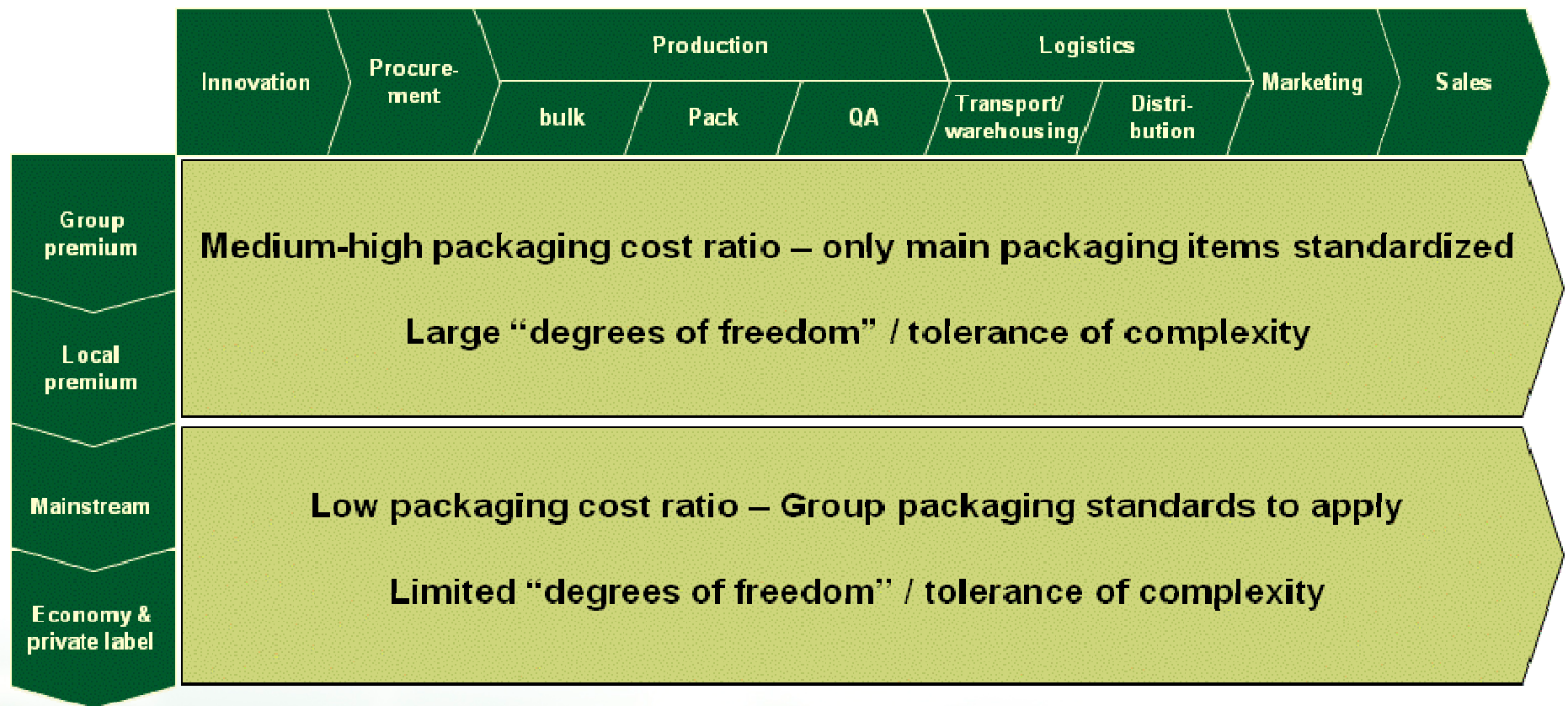
- New Technologies
- Mass customization
- Competitive advantage through packaging solutions and innovations
- More short-term packaging i.e. promotional, for events etc.
- Expand the market by exploring new customer/consumer needs

# Eliminate or embrace are two mutually supportive approaches

| Approaches                | Tactics      | Descriptions  |
|---------------------------|--------------|---|
| "Eliminate"<br>complexity | Standardize  | • Reduce differentiation between products   |
|                           | Modularize   | • Restrict differentiation to subassemblies that connect in same way  |
|                           | Outsource    | • Source from manufacturer who can provide products at lower cost with acceptable quality and service levels                          |
|                           | Kill or Cure | • Build under performing products, above minimum threshold or discontinue   |
| "Embrace"<br>complexity   | Specialize   | • Develop separate processes for handling low volume and highly differentiated products in specialized plants                         |
|                           | Delay        | • Differentiate high variety product characteristics as late in value chain as economical   |
|                           | Improve      | • Optimize production scheduling to reduce costs and invest in improved equipment and support systems to handle variety at lower cost |

Source: BCG

## Brand value proposition should be set parameters for the strategy and “degree of freedom”



# Complexity management

**Complexity Management  
Project lead MiSi**

| <b>Portfolio mng</b><br>Project lead MISI/LODA  | <b>Master Data</b><br>Project Lead ERV    | <b>Compl tool &amp; model</b><br>Project Lead ANDG | <b>Golden Rules</b><br>Project Lead /MISI        | <b>Workshops</b><br>Project Lead ANDG           | <b>SKU group</b><br>Project Lead MISI                                    |
|---|---|--|--|---|--|
| Definition of NPD<br>Define process<br>Define organization<br>Define roles & responsibilities | Versions styring<br>C & H<br>Phase In/Out | Build model<br>Build tool                          | Volume<br>Netsales<br>MC1<br>Complexity<br>KPI's | Initiatives<br>Business cases<br>Implementation | Define organization<br>Define process<br>Define roles & responsibilities |

**Phase 1**

**Phase 2**

**Phase 3**

## Targets & deliverables

### - Deliverables -

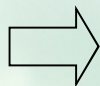
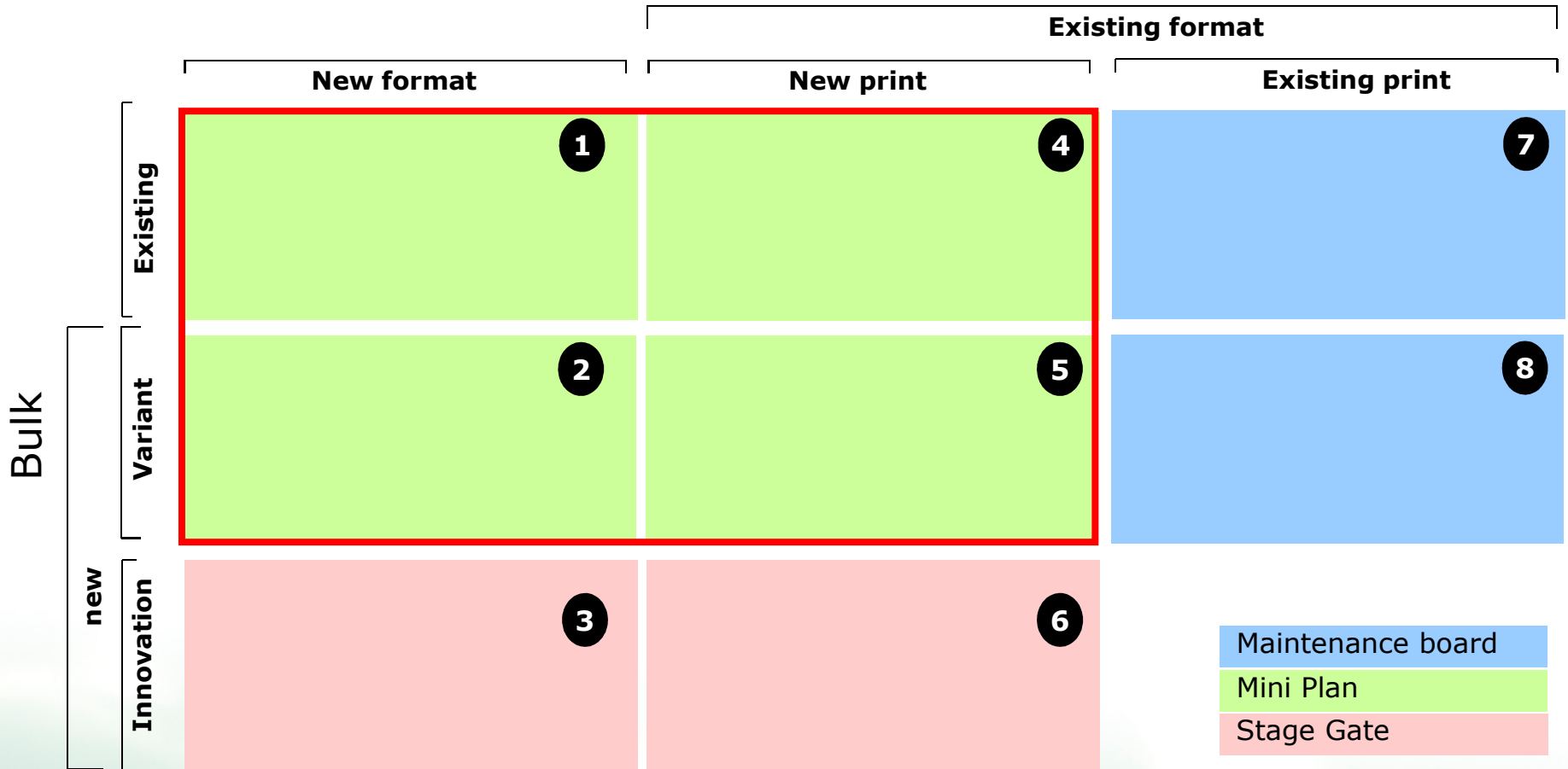
1. Definition of types of changes/roll-outs etc
2. Detailed process description per type (SOP's, templates and flowcharts)
3. Clear organizational mandate including roles and responsibilities
4. Training workshops for all relevant employees
5. New C & H database
6. A complexity model
7. A dynamic complexity tool covering all FE SLD sku's
8. Documented Golden Rules and thresholds
9. Business cases on workshop initiatives
10. SKU Group and Process documented & implemented

### - Targets -

1. Reduce low-performing sku's by 50% (low-performing = not in compliance with Golden Rules)
2. Reduce packaging scrap by 50%
3. Reduce Supply Chain scrap (bulk, finished goods and pack material) by 50%
4. Reduce packaging material cost by 5% (2008 cost base)
5. *Reduce data-errors by 70% (measured through C&H database)*
6. Reduce no of SKU's by 10%
7. All new SKU's will be evaluated by either gate- or mini gate committee
8. Post evaluation on all business cases after 1, 2 and 3 years

# Definition of NDP and associated process

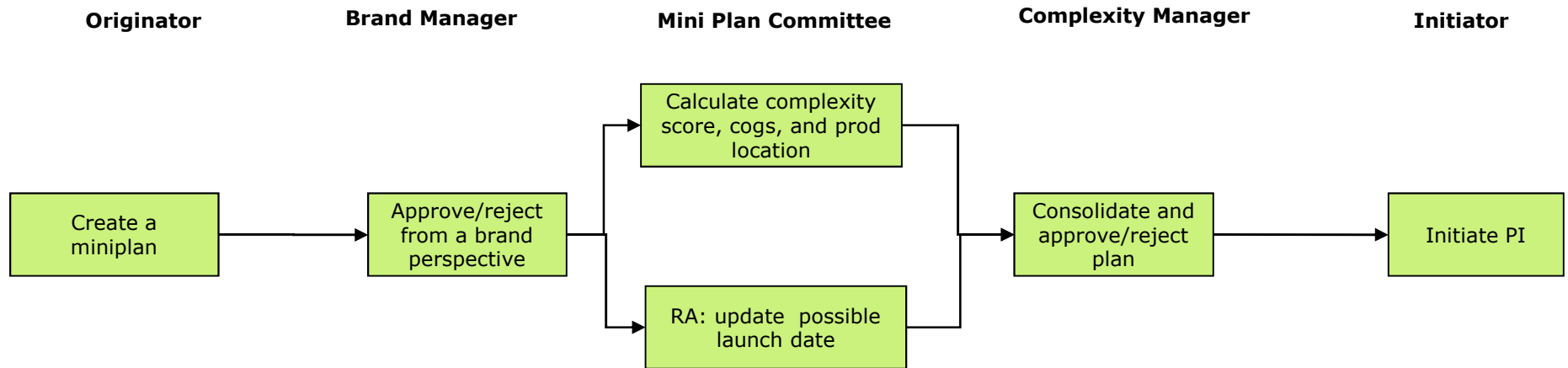
## Packaging



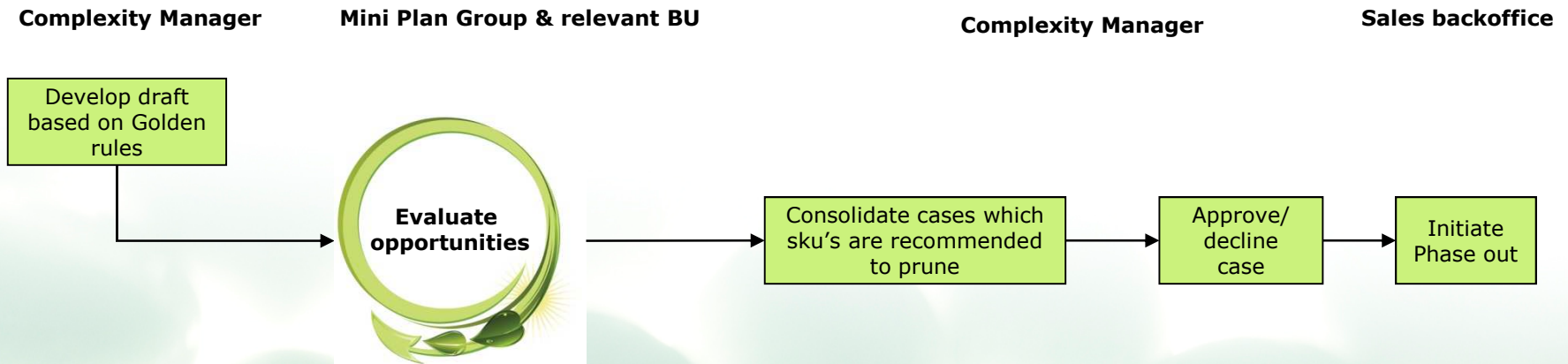
**Mini Plan Scope**

# Process for new sku's and phasing sku's out

## New SKU's



## Phase out



# Complexity model

Each finished good sku gets a score based on 3 different parameters

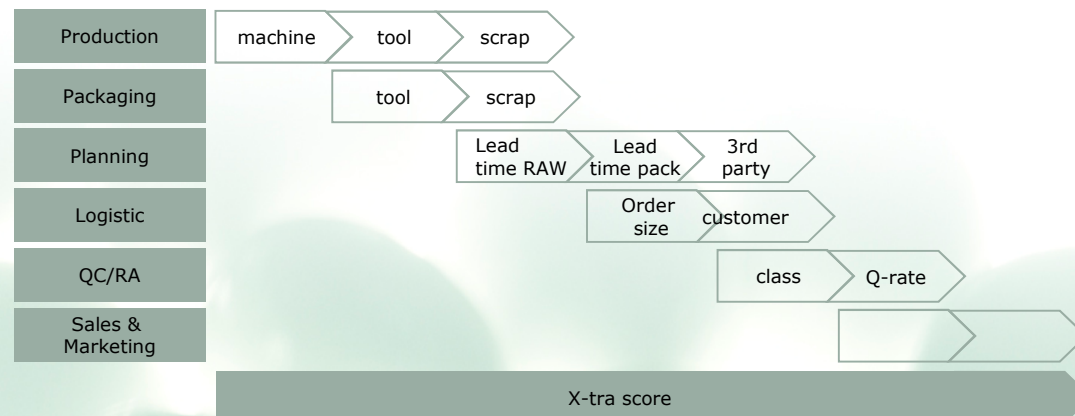
$$\text{Score} = \text{MC1 ratio score} + \text{volume score} + \text{complexity score}$$

**MC1 Ratio** Gross profit ratio – takes into account that an expensive (complex) product is valid as long as we have a high netsales

**Volume score** Based on the assumption that a small volumes (on FIN) are complex (inefficient)  
On bulk level both no of tablets + batch frequency are evaluated

**Complexity score** Captures the indirect cost on a given SKU across the organization.

**The model will never be able to give a 100 % truthful picture, but it is a valid indication on the complexity a given product is generating !!**



## Golden rules

### **When is an SKU performing?**

- ① Higher demand on the most complex SKU's
- ② Higher demand on drug than Food and Other
- ③ Higher demand on launches which requires new or adjusted bulks
  
- ① The average (and median) score for the whole Ferrosan portfolio is 60
- ② Thresholds focuses on gross profit
- ③ An EBITDA of 100.000 DKK per finished goods sku is minimum qualifier
  
- ① Different gross profit threshold depending on
  - ② Complexity score
  - ③ Food or drug
  - ④ Production location
  - ⑤ Existing, adjusted or new bulk

# Complexity score calculators for miniplans

## Detailed complexity score calculator

|               |                             | Model for Score Distribution |    |     |     |
|---------------|-----------------------------|------------------------------|----|-----|-----|
| MC1%          | MC1 %                       | 35                           | 35 | 35  | 16% |
| Volume        | Volume                      |                              | 55 | 55  | 25% |
|               | Bulk no of tablets per year | 15                           |    |     |     |
|               | Bulk no of batches per year | 20                           |    |     |     |
|               | Finished goods              | 20                           |    |     |     |
| Complexity    | Bulk                        |                              | 30 | 145 | 59% |
|               | Stempler                    | 5                            |    |     |     |
|               | Processer/maskiner          | 15                           |    |     |     |
|               | Unikke råvare i bulk        | 5                            |    |     |     |
|               | Håndtering                  | 5                            |    |     |     |
|               | QN'er                       | 15                           | 15 |     |     |
|               | QC/QA/RA                    |                              | 20 |     |     |
|               | Drug/food                   | 15                           |    |     |     |
|               | Analyser                    | 5                            |    |     |     |
|               | Pakkeri                     |                              | 60 |     |     |
|               | Container                   | 10                           |    |     |     |
|               | Blistersachet               | 5                            |    |     |     |
|               | Label                       | 10                           |    |     |     |
|               | Insert/leaflet              | 5                            |    |     |     |
|               | Carton                      | 10                           |    |     |     |
|               | retail unit                 | 5                            |    |     |     |
|               | Shipperbox                  | 5                            |    |     |     |
|               | Misc.                       | 10                           |    |     |     |
|               | Planning                    |                              | 20 |     |     |
|               | Planning Production         | 5                            |    |     |     |
| Raw mat       | 5                           |                              |    |     |     |
| Planning Pack | 5                           |                              |    |     |     |
| Pack mat      | 5                           |                              |    |     |     |
|               |                             | 235                          |    |     |     |

## Quick score guide for commercial org

| Golden Rule Calculator   |               |
|--|---------------|
| Category   | Parameter     |
| Bulk   | Existing bulk |
| Bulk location  | Soeborg       |
| Pack location  | Soeborg       |
| Brand  | FE Brand      |
| FE status *  | Food          |
| Search Code  | ESSF          |
| <b>Threshold</b>   |               |
| Low Complexity, MC1 DKK  | 200.000       |
| High Complexity, MC1 DKK   | 300.000       |
| * Food includes Food, Medical Device and Cosmeceutical<br>Drug includes Drug and EU Drug |               |

# Miniplan example from notes database

## Mini Plan

242: MT BernHi/Jo P&M  
Workflow status: Completed

Created 25-01-2011 21:41 By CRHA  
Modified 28-04-2011 09:51 By ANS

### Launch data

|                                |   |
|--------------------------------|---|
| Ref. no.                       | 242   |
| Item name                      | MT BernHi/Jo P&M  |
| Sub brand                      |   |
| Requested launch / change date | 04-04-2011  |
| New bulk                       | <input type="radio"/> Yes <input checked="" type="radio"/> No |
| New country launch             | <input type="radio"/> Yes <input checked="" type="radio"/> No |
| Change to existing bulk        | <input checked="" type="radio"/> Yes <input type="radio"/> No |
| Requirement of new pack format | <input checked="" type="radio"/> Yes <input type="radio"/> No |
| Own art work                   | <input checked="" type="radio"/> Yes <input type="radio"/> No |

### RA data

|                     |  |
|---------------------|--|
|                     | <input checked="" type="checkbox"/> RA Completed |
| Reg. file submitted | 09-02-2011                                       |
| FE Status           | Food   |

### Supply Chain data

|               |           |
|---------------|-----------|
| Bulk location | FE Søborg |
| Pack location | FE RO     |
| Comments      |           |

### Bulk

|                                   |         |
|-----------------------------------|---------|
| Bulk code (or composition if new) | TAZ-4   |
| Bulk no.                          | 4545858 |

### Business rationale

Due to issues on formulation as tablets are turning brown in summertime a new formulation has been created to replace existing. At the same time new artwork will be implemented

### Packaging

|                                   |   |
|-----------------------------------|---|
|                                   | <input checked="" type="checkbox"/> Foil                      |
|                                   | <input type="checkbox"/> Kliche                               |
|                                   | <input type="checkbox"/> Tray                                 |
| Blister                           | <input checked="" type="checkbox"/> Insert                    |
|                                   | <input type="checkbox"/> Leaflet                              |
|                                   | <input type="checkbox"/> BRC                                  |
|                                   | <input checked="" type="checkbox"/> Carton                    |
| - Foil                            | ALU/ALU   |
| - Create new article no. - Foil   | <input type="radio"/> Yes <input checked="" type="radio"/> No |
| - Create new article no. - Insert | <input checked="" type="radio"/> Yes <input type="radio"/> No |
| - Create new article no. - Carton | <input checked="" type="radio"/> Yes <input type="radio"/> No |

# Miniplan business case example from notes database

Bizz case **COGs** Score

| Information  |                      | Information |                                 |
|--------------|----------------------|-------------|---------------------------------|
| Name of idea | <input type="text"/> | Launch date | <input type="text" value="16"/> |
| Country      | <input type="text"/> | Rejected    | <input type="checkbox"/> Yes    |
| Bulk code    | <input type="text"/> |             |                                 |

| In DKK                                   | Year 1   | Year 2   | Year 3   | Year 4   | Year 5   |
|--|----------|----------|----------|----------|----------|
| Timing                                   | 0        | 0        | 0        | 0        | 0        |
| <b>PROFIT AND LOSS, TOTAL BRAND</b>      |          |          |          |          |          |
| Units (Pack size: <input type="text"/> ) | 0        | 0        | 0        | 0        | 0        |
| Consumer price in DKK                    | 0,00     | 0,00     | 0,00     | 0,00     | 0,00     |
| Fe Net Sales Value per unit in DKK       | 0,00     | 0,00     | 0,00     | 0,00     | 0,00     |
| COGs per unit in DKK                     | 0,00     | 0,00     | 0,00     | 0,00     | 0,00     |
| Complexity                               | 0        | 0        | 0        | 0        | 0        |
| <b>NET SALES</b>                         | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |
| Growth %                                 |          | 0%       | 0%       | 0%       | 0%       |
| <b>COGS</b>                              | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |
| COGS %                                   | 0%       | 0%       | 0%       | 0%       | 0%       |
| <b>MC1</b>                               | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |
| MC1 %                                    | 0%       | 0%       | 0%       | 0%       | 0%       |
| <b>A&amp;P</b>                           | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |
| A&P %                                    | 0%       | 0%       | 0%       | 0%       | 0%       |
| <b>MC2</b>                               | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |
| MC2 %                                    | 0%       | 0%       | 0%       | 0%       | 0%       |
| <b>Other local cost</b>                  | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |
| <b>Lost MC2 due to cannibalisation</b>   | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |
| <b>Gained MC2 due to synergy</b>         | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |
| <b>Net result</b>                        | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |